

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
MAGAZINE PUBLISHERS OF AMERICA
WITNESS RITA T. COHEN (NAA/MPA-T2-1-9)
January 22, 1998**


The Newspaper Association of America hereby submits the attached interrogatories to Magazine Publishers of America witness Rita T. Cohen (MPA-T-2) and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

January 22, 1998


William B. Baker

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NAA/MPA-T2-1. You state in your direct testimony at page 15, line 28, that Professor Bradley developed a "...state-of-the-art econometric variability analysis..." to measure volume variability of mail processing costs, and go on to state at page 16, lines 9-10 that "Witness Bradley was meticulous in his approach, performing numerous analytical and diagnostic calculations."

- a. Please specify all documents, including workpapers, that you relied upon to draw the above conclusions.
- b. As a part of your review of Professor Bradley's analysis, did you examine the data to assess its accuracy or reliability? If yes, please describe your examination of the data and what conclusions you drew based upon this examination.
- c. As a part of your review of Professor Bradley's analysis, did you examine the data that Professor Bradley excluded from his analysis? If so, did you determine whether the exclusion of these data was appropriate? Please explain.
- d. As a part of your review of Professor Bradley's analysis, did you investigate alternative specifications of his recommended models? If so, please describe these investigations and what conclusions you drew based upon these investigations.
- e. As a part of your review of Professor Bradley's analysis, did you perform any independent analysis, including but not limited to recalculation of the resulting cost variabilities by MODS operation, to verify the results of Professor Bradley's analysis? If so, please describe this independent analysis and provide a copy of the analysis.

NAA/MPA-T2-2. Please refer to pages 32-33 of your direct testimony. You discuss an alternative cost distribution for clerk and mailhandler costs and suggest this method is consistent with the methods used in previous rate hearings. Would your distribution methodology yield the same cost distribution as the methodology

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used by the Commission in R94-1? If no, please describe and quantify any differences by class and subclass of mail using your method and the method employed in R94-1.

NAA/MPA-T2-3. In Docket No. R94-1, you and Witness Stralberg presented arguments for treating certain mail processing overhead costs as institutional costs and alternative options for distributing these costs across mail classes and subclasses. These arguments are similar to those you are presenting in the current proceeding. In R94-1, the Commission did not accept the suggestion to exclude mixed-mail data from the distribution of mail processing costs, concluding that, "Using the counted mixed-mail tallies as part of the direct tally base for distributing uncounted mixed-mail costs is the preferable approach." [p. 3072]

- a. Please describe any differences in the arguments you are putting forth in this proceeding compared to the arguments in your testimony in Docket No. R94-1.
- b. Do you believe that the Commission's decision was incorrect in Docket No. R94-1?
- c. What circumstances, if any, have changed to suggest that the Commission should reverse its previous decision in the current proceeding? Please explain.

NAA/MPA-T2-4. You contend in your direct testimony at page 33, lines 23-26, that "...the Postal Service agrees that some mail processing costs are institutional costs," and go on to state that, "Based on witness Bradley's analysis, almost a quarter

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of all mail processing costs (direct, mixed mail, and not-handling) are treated as institutional."

- a. Please confirm that the Postal Service's recommendation to treat a portion of mail processing costs as institutional costs is based on Professor Bradley's conclusion, generated by his new methodology, that a portion of mail processing costs are not volume variable. If you cannot confirm, please discuss your response fully.
- b. Please confirm that none of the mail processing costs the Postal Service is categorizing as institutional in this proceeding would be considered volume variable using Professor Bradley's methodology. If you cannot confirm, please discuss your response fully.
- c. If you confirm parts (a) and (b) above, please discuss how Professor Bradley's testimony supports the notion of categorizing volume variable mail processing costs as institutional costs.

NAA/MPA-T2-5. Please refer to your direct testimony, page 34, lines 1-2 and page 36, lines 15-18. Is it your testimony that all volume variable not-handling costs be treated as institutional costs or only those volume variable not-handling costs resulting from "inefficient" operations. Please discuss your response fully.

NAA/MPA-T2-6. In preparing your testimony, did you investigate possible inefficiencies in Postal Service operations related to any other cost categories besides mail processing, including, for example, transportation or carrier costs? Please explain your response.

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NAA/MPA-T2-7. Assume, for example, that inefficiencies were found to exist in the transportation of mail between BMCs. If this were the case, would you recommend that a portion of the inter-BMC transportation costs be classified as "institutional" costs? Please explain your response.

NAA/MPA-T2-8. Please refer to page 36 of your direct testimony. You cite a Christensen Associates study to derive your estimates of the proportion of mixed-mail and not-handling costs resulting from Postal Service "inefficiencies."

- a. Have the facilities in the top quartile of productivity experienced the same increase in not-handling costs as those facilities in the bottom 75 percent over the last ten years? Please discuss your response.
- b. Based on the results of the Christensen Associates study, please confirm that the bottom 75 percent of facilities experience some inefficiency in direct mail handling costs in addition to inefficiencies in mixed-mail and not-handling costs? If you cannot confirm, please explain your response.
- c. If part (b) is confirmed, should direct mail handling costs resulting from inefficient operations be attributed to classes or subclasses of mail? Why or why not?

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NAA/MPA-T2-9. Considering your arguments relating to inefficient mail processing costs:

- a. According to economic theory, how might the price signals sent to a consumer of an "inefficiently produced" product be affected when that product's price is artificially set at "efficient" levels?
- b. What are the consequences of these price signals in terms of overall economic efficiency?
- c. Assume that an inefficient producer of a product prices the product at the cost of producing the product inefficiently. Will this inefficient producer lose business to more efficient competitors? If no, please explain why not.
- d. If your response to part (c) above is yes, does this price signal promote efficiency by having consumers buy the product from the most efficient producer? Please explain your response.
- e. Now assume instead that an inefficient producer of a product prices the product at less than his actual cost of producing the product. Will this inefficient producer maintain business that would otherwise go to more efficient producers? Please explain why or why not.
- f. If your response to part (e) above is yes, does this price signal reduce economic efficiency by having consumers buy the product from a less efficient producer? Please explain your response.